

THE SOVIET UNION

Baltic states offer gateway for western investment

Olav Hellebo and Richard Muri propose an economic role for newly independent Estonia, Latvia and Lithuania

THE BALTICS have always been a "window to the west" for the Soviet Union, given their geographical position and traditional links with the Nordic countries. As they start seeking an economic role in a world where they are no longer the political place, it is tempting to see the Baltics as a "window to the east" - a trade bridge between east and west.

The reasons for seeing Latvia, Lithuania and Estonia as a possible "time base" for western companies seeking an entry into the Soviet Union are clear.

Despite 50 years of Soviet control, the Baltic states produce better goods, with higher productivity than elsewhere in the Union. Labour is cheap and generally well skilled. Within a few years, the three states could also have a developed infrastructure, complete with international telecommunications, efficient ports and improved roads.

Foreign currency auctions and direct international banking links already offer the basis of a financial services network which could readily be built up through favoura-

ble legislation, improved telecommunications and the indigenous innovation of Baltic bankers.

Moreover, the Baltic people are generally skilled at languages and understand the differing business mentalities of Russia and the west. Baltic mediators could thus offer consulting services, particularly for smaller western companies which would not have the resources to conduct their own market studies in the Soviet Union.

But while the Baltic states are willing to shift towards a market economy, a half century of Soviet rule has left its mark. Even given the Baltic states' achievement of real political independence, to win credibility as a bridge from west to east, both business and government need a wholesale change of attitude. The three countries' infrastructure will also need a substantial overhaul.

At present, managers are used to following static central directives rather than reacting to the dynamics of the market. The lack of competition has set a focus on volume production and diminished the importance of the consumer. Furthermore,

overcomplex legislation and the government's lack of service-mindedness have also hindered trade.

The bureaucratic impediments to trading from the Baltics are also complicated by the conflicting legal positions of the republics and the Soviet government. Both Soviet and Baltic authorities, for instance, levy taxes; something which has forced local companies either to pay exorbitantly high taxes or ignore them altogether. Tax collection is difficult to enforce, and some levies are even seen by businesses as legally questionable.

Money is also a problem. Centrally printed roubles are in short supply and bank transfers from the centre are extremely slow. This causes high demand for cash and has forced the Estonian Central Bank to limit cash withdrawals. This has hindered Estonian companies' ability to pay suppliers in the Soviet Union for raw materials, leading in turn to a flourishing illegal barter trade and other questionable trade practices - an environment which western companies are reluctant to enter.

The republics' lack of control within their own economic territories is also a difficulty - in particular the present inability of the three governments to grant foreign investors proper guarantees.

There would also be physical impediments to the Baltics becoming the nexus of an east-west trade boom. The Baltic states' infrastructure, adequate as it is for present needs, is already working at its limits. Here, though, improvements are already under discussion.

Although international telecommunications are today unreliable and far below European standards, joint ventures between Baltic and Scandinavian groups are already setting up mobile telephone networks.

While the main roads are of a fair standard and able to cope with the present modest traffic load, all roads are two-lane and would quickly become bottlenecks if trade rose significantly. But plans exist to improve road transport by upgrading links with Scandinavia and the European Community, focusing on a "Via Baltica" route linking Scandi-

navia and Finland with central Europe.

A second proposal is to link northern Europe to the rest of the Soviet Union with a privately-financed toll road running from Germany to Leningrad, passing through Odansk, Kaliningrad, Riga and Tallinn.

However, both these projects would be costly and may be difficult to finance. In addition, synchronising the efforts of the governments involved, and the construction time alone, mean such projects can only be foreseen in the longer term.

In the early years of development, therefore, the Baltics would have to rely on sea transport. The Soviet Union has traditionally depended for much of its international trade on the Baltic ports of Klaipeda, Ventspils, Riga and Tallinn. However, the Baltic independence struggle, which has brought into question the ownership of these ports, has led the Soviet authorities to halt development projects. As the ports come unequivocally under Baltic jurisdiction, the republics can then at least oversee their own modernisation and development plans.

To complete the rebuilding and upgrading of infrastructure in time for any coming trade growth, the Baltic states will need hard currency investments and western know-how. But the possibility of eventual high returns would be an incentive for foreign investors.

The necessary change from a centralised and static way of thinking towards market and customer-oriented thinking is not only the Baltic peoples' responsibility. Western governments and companies must be willing to assist by sponsoring educational programmes and arranging management traineeships if the change is to be effected.

Building the Baltics into an east-west trade bridge - and a catalyst in the transition of the Soviet Union into a market economy - can be achieved only with western aid and private investment. The authors are enrolled in the MBA programme at IESE business school in Barcelona, and are conducting a study on the initiative of Mr Turme Kalam, chairman of the Council of Estonia, on creating a "Baltic Free Enterprise Area".

Moldova's Russian minority fights back

THE Russian-speaking Dniestr region of Moldova yesterday declared independence from the bulk of the republic which wants close ties with Romania.

It also threatened to cut energy supplies to the rest of the republic from midnight if Moldovan authorities did not release their president, Mr Dmitry Smirnov, held on suspicion of backing the failed coup in Moscow.

About 5,000 people cheered as the red-green Soviet Moldovan flag with hammer and sickle was raised in the centre of Tiraspol, self-proclaimed capital of the "Dniestr Soviet Socialist Republic".

The regional parliament voted to separate from the Romanian-speaking part of the republic, which declared itself independent after the coup.

The people of Kishinyov (the Moldovan capital) have chosen their path of moving towards Romania. We wish them happiness and all the best, but ask them to recognise our independence," Mr Andrei Manuilov, the region's vice-president, told the crowd.

The crowd chanted repeatedly "Druzba Narodov" (Friendship of the peoples), a slogan much used by communist authorities in the past.

The parliament included a clause in the republic's constitution on Monday allowing Soviet troops and weaponry to be stationed on its territory.

The Moldovan republic is made up largely of regions annexed from Romania during World War II and the Dniestr region, where about 700,000 people live, was settled by Russians in a rapid industrialisation programme. Moldova's moves towards Romania have stirred strong nationalism among Russians who see Moscow as their defender.

Tiraspol's streets were decorated with Soviet Dniestr flags and hunting. Factory militia in camouflage uniforms and armed with rubber truncheons stood at street corners.

Ethnic tensions have run high over the past year in the southern republic of 4.3m. Dozens have been killed in clashes since Moldova began to break with the central authorities.

Soviet supply line to Kabul dries up

SOVIET food and fuel supplies to Afghanistan appear to have virtually dried up since the political convulsions in the Soviet Union, causing prices in Kabul to soar along with fears about the coming winter.

Amid the rapid Soviet changes it was unclear whether the cuts were due to a policy decision in Moscow or confusion.

Soviet SU-26 transport aircraft still land at Kabul airport but their cargoes are mostly destined to sustain Afghan President Najibullah's war machine in its battle with Islamic Mujahideen guerrillas.

Little appears to be coming down the Salang highway from the Soviet border - the main route across the Hindu Kush mountains for wheat and fuel cargoes. Black market prices of petrol and diesel have nearly doubled in recent weeks and transport operators are cutting services. Five litres of petrol cost about 3,500 Afghanis (\$1.50), nearly twice the daily wage of a Kabul labourer.

However, his move was unexpected, since he has been content to meet all the other foreign delegations who have

Quiet welcome for US recognition of Baltics

By Gillian Tett in Vilnius

THE long-awaited US recognition of Baltic independence was welcomed, albeit in a muted fashion, by Lithuanian leaders yesterday.

But in an apparent move to play down the hype surrounding President Bush's statement, Mr Vytautas Landsbergis, president of Lithuania, had earlier unexpectedly flown to Hungary to establish diplomatic ties there.

In Mr Landsbergis's absence, Mr Bronius Kuzmikas, Lithuanian vice-president, commented that he was pleased about the recognition and said the "long-awaited right of independence had now been won".

Earlier, a Lithuanian parliamentary spokesman had denied that Mr Landsbergis's sudden trip to Hungary was timed as a snub to President Bush.

However, his move was unexpected, since he has been content to meet all the other foreign delegations who have

scrambled to establish diplomatic ties with the Baltic states in recent days.

There has been mounting resentment among Lithuanians about the delay in US recognition, and the degree to which President Bush had appeared to be taking his cue from developments in Moscow.

"Why should Mr Landsbergis sit around waiting for Mr Bush, when we don't even know when his statement is coming? He's got other things to do," commented a Lithuanian press spokesman.

However, Mr Landsbergis reiterated this morning that he would welcome US recognition. Speaking during a packed schedule yesterday morning in which he met delegations from Ireland, Canada and Japan, Mr Landsbergis said that the US recognition would provide a "complete and great protection against every possible new aggression".

Mr Landsbergis is accompan-

ied on his trip to Hungary by the foreign ministers of all three Baltic republics. It will provide one of the first opportunities for Baltic leaders since the failed coup to discuss common political and foreign policy issues.

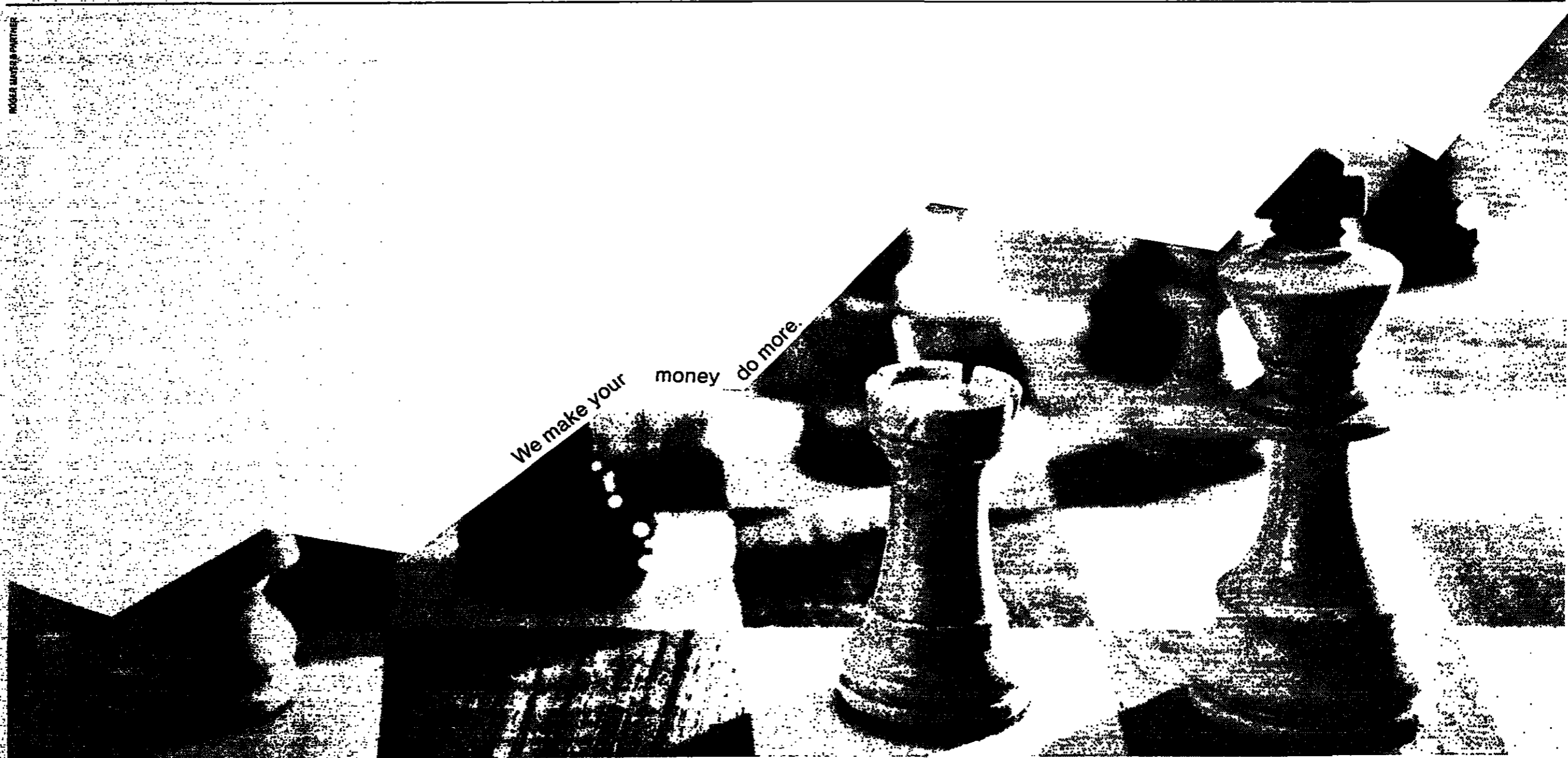
After meeting Mr Jozsef Antal, the Hungarian prime minister, the three Baltic foreign ministers will then go to Vienna for unspecified further business.

There is strong interest in Hungary as a model for economic reform among Lithuanian economists who have as yet been slow to implement any cohesive policy for economic reform in Lithuania.

Meanwhile, in Vilnius confusion remained about the state of negotiations for the withdrawal of the 90,000 Soviet troops stationed in Lithuania. Dispersal of the infamous "Omon" or Black Beret troops is not yet complete.



Latvian President Anatolijs Gorbunov learns of US recognition of his nation's independence



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Ceasefire deal may point only to change of tactics by Milosevic

Faint hopes for Yugoslav peace

By Laura Silber in Belgrade

THE ceasefire agreed yesterday by the European Community and the leaders of Yugoslavia may be the first step towards establishing a genuine peace. However, it may also signal a shift in tactics by Mr Slobodan Milosevic, Serbia's president, and one of the main protagonists in the conflict.

The agreement calls for an immediate end to hostilities, demobilisation of Croatia's National Guard, withdrawal of the Yugoslav army to barracks in Croatia, and EC supervision of the ceasefire.

At the ceremonial signing early yesterday morning, Mr Milosevic, who was clearly distressed, reluctantly agreed to a toast only when pressed by Mr Hans van den Broek, the Dutch foreign minister.

Mr Milosevic signed the agreement only after repeated threats of economic sanctions. But he may be confident that international arbitrators will grant his republic the largely Serbian populated territories in Croatia, where Serb militants have taken control. The Croatian government, however, is unlikely to accept any redrawing of its international borders.

Mr Milosevic said the document was only acceptable because leaders of the Serbian minority would be included in the talks. But militants in the



Over 1,000 women who travelled to Brussels from Croatia pleaded at the EC's headquarters yesterday for Community intervention in the fighting

self-proclaimed autonomous regions who are staging the uprising sent a letter yesterday to the European Community denouncing the agreement as "illegitimate" because it excludes their representatives from the negotiations.

Yesterday's letter from the leaders of Serbian militants from the strife-torn regions of Slavonia, Baranja and Krajina serves as a reminder of how

difficult it will be to gain a reconciliation between the warring sides.

Mr van den Broek said: "The EC will send observers to Croatia as soon as the ceasefire comes into effect." The scattered fighting in several towns in Banija, central Croatia, suggested a lasting ceasefire had not yet been achieved.

Croat leaders, who have been seeking the international-

isation of the Yugoslav crisis, appeared pleased that Serbia had bowed to EC pressure to sign the document.

Mr Franjo Tudjman, president of Croatia, warned: "Securing the ceasefire represents the hardest part of the job."

Today, EC foreign ministers are expected to discuss the date and the location of a peace conference to take place in the next two weeks.

Germany calls for EC asylum policy

By Christopher Parkes in Bonn

THE European Community will not be ready to meet its target of scrapping border controls at the end of next year unless it first agrees on a common policy for dealing with the floods of people seeking political asylum in the EC, according to Mr Wolfgang Schäuble, the German interior minister.

No single country could deal with the problem alone, he said in a newspaper interview yesterday. Tension in Germany over the issue has increased sharply in recent days as the

country's political parties prepare to start work today after the summer holidays.

More than 22,000 asylum seekers entered Germany in July alone, bringing the total for the first seven months to 118,000. More than 200,000 are expected before the end of the year, increasing pressure on accommodation and facilities for processing requests for asylum.

The CDU and FDP coalition partners are divided on how to deal with the problem, and the

SPD opposition has been stonewalling absolutely. At issue are the country's unusually liberal laws, which are enshrined in the constitution and have encouraged more than half of those seeking asylum in western Europe to head straight for Germany.

The CDU, senior partner in the government, wants to change the law to deter the many economic refugees claiming "political" asylum, and Mr Theo Waigel, finance minister, yesterday demanded that the

law should be changed this year. He described the FDP's proposals that change should be limited to speeding up processing requests for asylum as "shadow boxing".

The FDP justice minister, Mr Klaus Kinkel, insisted however that "practical measures" to enable requests to be dealt with in 14 days would be enough. Meanwhile, Mr Björn Engholm, chairman of the SPD, insisted his party would not agree to any changes in the law.

French communists face pressure to reform

By William Dawkins in Paris

DIVISIONS in the French Communist party (PCF) have widened, with a plea for "urgent" reforms by nearly a third of its MPs.

The reformers' group, including eight national MPs, has issued a paper condemning a "serious democratic deficit" in the party following the failed Soviet coup. This is the most open example to date of the growing rift between traditionalists and reformers in the party which lay behind its ambiguous response to last month's upheavals in Moscow.

Any sign of ideological

change in the Communist party, traditionally loyal to a Stalinist-style creed, is significant to France's minority Socialist government, which relies on the Communists for a majority in parliament. The government's electoral fortunes are linked to the Communists, though Socialists are divided between wanting divorce and a wider marriage with a reformed PCF.

The reformers' appeal comes as the central committee starts a meeting today at which the party's leaders will air their ideological differences.

Polish government seeking greater powers

By Christopher Bobinski in Warsaw

THE POLISH government and parliament (Sejm) are on a collision course over the division of powers, with the country's first free elections since the second world war less than two months away.

The government led by Mr Jan Krzysztof Bielecki, which last Saturday won a confidence motion, plans to ask parliament this week for constitutional changes to strengthen its powers in relation to the legislature.

It is refusing to release details of its proposals, but a spokesman said yesterday that

they "make government less exposed in future to votes of no confidence in parliament".

They appear to be intended to give the government powers which will remain after the election, in the belief that the new parliamentary political parties will have no clear majorities on which to build a stable cabinet.

At the moment the president proposes a candidate for prime minister for parliament to approve. The premier then puts together a government which has to win parliamentary approval.

Greece plans to organise its crowded skies

Kerin Hope on airspace problems

"Flying into Greek airspace is rather like moving down a motorway and going down a country lane with high hedges blocking the view," says a pilot for an airline operating charter flights to Athens. "It takes some getting used to."

Greek civil aviation officials agree that the country's air traffic control (ATC) system is the most old-fashioned in Europe, with effective radar coverage limited to a 40-mile radius around Athens' Hellenikon airport.

Little has changed since the late 1950s, when a terminal approach radar was installed to handle a rapid increase of flights as the tourist industry developed. Outside its range, Greek air traffic controllers rely on flight information obtained by talking to pilots over a crackly VHF radio link.

Although improvements were periodically discussed, bureaucratic delays and arguments over costs and technical specifications, combined with the Greek Civil Aviation Authority's lack of political clout, kept modernisation of Hellenikon at the bottom of successive governments' infrastructure priorities.

Yet Athens is among Europe's 10 busiest airports. It handled over 11m passengers last year, while the ATC centre logged close to 350,000 passenger flights. More than a third were overflights on routes across the Aegean to the Middle East and the Gulf.

"We should have been integrated with the rest of European airspace years ago. But while the government was delaying, ATC technology advanced, so all the studies had to start over," says Gen Spyros Zervas, deputy governor of the CAA.

Last month the Transport Ministry finally signed a contract with Thomson-CSF, the French electronics maker, for a turnkey project to supply a sophisticated ATC system providing complete radar coverage of Greek airspace, together with digital telecommunications and computerised facilities for information processing and message switching.

Thomson undertook to install both a new approach radar for Hellenikon and the message-switching centre within eight months. At present pilots flying to the Gulf may decide to bypass Greece and take a longer route through Turkish airspace, because of problems in contacting the overloaded Athens message centre to file a flight plan.

By early 1994, a primary radar with a 150-mile radius extending over a large chunk of mainland Greece and the main Aegean islands, will start operating, together with three secondary monopulse radars in different areas which will cover the rest of Greek airspace.

Instead of constantly querying pilots, air traffic controllers will see essential flight information displayed on the radar scope: flight identification, speed, altitude, even a code to indicate that a hijacking has taken place.

"Flight safety will improve enormously with the new system. We have a nerve-wracking time with the radio - if three planes are close together you can get all the pilots talking to

you at the same time," said one controller.

The new system is expected to improve "flow management" - the efficient handling of thousands of aircraft criss-crossing a three-dimensional block of airspace - so markedly that Greece can expect an immediate 30 per cent increase in traffic.

The present Athens system becomes saturated during the peak tourist season because aircraft flying at the same altitude and speed must be kept at least 60 miles apart, to ensure a 10-minute safety margin between flights. With the automated system the separation distance is halved.

The European Community needs a single air traffic control system to cope with an expected doubling of air traffic by the end of the century, EC Transport Commissioner Karel Van Miert said yesterday. Reuter reports from Brussels.

"In the future we must consider reducing the number of control centres in Europe... with the aim of creating a unified, pan-European air traffic management system," he told a seminar on air traffic control in Saint-Paul de Vence, France.

Mr Yiannis Kefaloyannis, the Greek minister for tourism, was sacked yesterday for publicly opposing a government decision allowing construction of luxury hotels close to the coastline, Kerin Hope writes.

He will not be replaced and his portfolio will be merged with the Economy Ministry.

need be only five to 10 miles, according to international civil aviation rules.

The effect, it is hoped, will be a substantial reduction in flight delays, especially for the charter aircraft used by most tourists visiting Greece. Procedures on the ground will be speeded up when a new Athens charter terminal and taxiing area is opened next summer, using converted facilities at an adjoining US airbase which closed this year.

The Drbn (\$440m) cost of the new system should be recovered within eight years, since tariffs for flying through Greek airspace will double as soon as it comes into operation, Gen Zervas says.

Airlines will benefit from the increased capacity of Greek airspace under the new system, with considerable savings in fuel as the Aegean air corridor, the most direct route to the Gulf, become more accessible.

By the end of this year, the CAA hopes to have selected a supplier for four approach radars to be installed at Greece's other international airports - Thessaloniki, Heraklion in Crete, Rhodes and Corfu.

Thessaloniki, the main northern Greek business centre, is expected to attract increasing air traffic from Balkan and central European countries, especially now that travel by road and rail through Yugoslavia has shrunk. Growing charter traffic at the three island airports, each of which handles more than 1.5m passengers annually, means delays are now frequent in the summer months.



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AMERICAN NEWS

More Democrats to join poll race

By George Graham in Washington

THE NEXT two weeks are likely to see the US Democratic party's list of presidential candidates for 1992 filled out, as more contenders decide to run. Governor Bill Clinton of Arkansas, Senator Tom Harkin of Iowa and Governor Douglas Wilder of Virginia are among those most widely expected to make an announcement. They will join ex-Senator Paul Tsongas and Mr Larry Agran, the little-known former mayor of a small Californian town, who are so far the only declared candidates for the Democratic nomination. Mr Jerry Brown, former governor of California, is another possible in the race. But the candidate who is generating

the most excitement in the Democratic camp is Senator Bob Kerrey of Nebraska, a war hero with strong views, a ferocious tongue and a string of successes in his brief political career. "Democrats could do worse. Usually do. Probably will. But they should note that Bush's composure sometimes cracks under serious criticism, so a Democrat with Kerrey's bite would have an interesting edge," said Mr George Will, the conservative political commentator, a year ago. Senator Kerrey said last year he would not run for the presidency, but the lack of other candidates has made him rethink.

Should he decide to run, he could throw open a contest that had appeared likely to turn into a duel between Senator Harkin and Governor Clinton. The Iowa senator, a prairie populist who can deliver a rousing campaign speech, represents the traditionalist wing of the party, with strong ties to trade union and civil rights movements and a commitment to activist government. Governor Clinton, at 45 the US's longest-serving governor, belongs to the Democratic Leadership Council, a revisionist wing of the party which wants to get away from the Democrats' "tax and spend" image. He has the backing

of the highly effective fund-raising team which won Governor Michael Dukakis the Democratic nomination in 1988. None of the candidates, however, is widely known outside his home state. "They are not at this point national candidates," said Mr John White, a former chairman of the Democratic National Committee, last week. Mr White said Governor Mario Cuomo of New York or Senator Lloyd Bentsen, the Democrats' vice-presidential candidate in 1988, might change their minds and run. Alternatively, if no contender won a clear lead in the primary elections, the party convention could pick a compromise candidate.

Mexican opposition mayor to be governor

MEXICO'S opposition National Action party (PAN) has been granted the interim governorship of the state of Guanajuato, writes Damian Fraser in Mexico City. Mr Carlos Mendizábal, PAN mayor of Leon, is only the second opposition leader to govern a Mexican state in the 62 years since the ruling Institutional Revolutionary party was founded. He is likely to remain governor until next year, when elections are due. His appointment follows the resignation of the PRI governor-elect, Mr Eusebio Aguilar, last Thursday night. He is thought to have quit at the behest of President Carlos Salinas, who was concerned by fraud accusations.



Noriega: defence claims he was paid more than \$20m

Haiti tensions rise

POLITICAL tension is rising in Haiti as the national assembly prepares today to consider a vote of no confidence against Mr René Préval, the prime minister, writes Canute James. Pro-government demonstrators attacked MPs and surrounded the legislative buildings two weeks ago when the vote against Mr Préval was first considered.

Canadians braced for strikes

By Bernard Simon in Toronto

WITH a postal strike already under way and federal civil servants threatening to walk out later this week, Canada is bracing for the most disruptive labour action in recent years. The disputes, involving two of the public sector's biggest unions, reflect growing pressure on Canadian workers to adjust to a climate of greater fiscal restraint and increasing competitiveness. They also mark a challenge to government efforts to contain wage increases as a means to curbing inflation. The stoppage by the 45,000-member Canadian Union of

Postal Workers (CUPW) began last week on a "rotating" basis in various cities. Residential deliveries in Toronto and Montreal have stopped, but Canada Post is trying to continue service to businesses, using managers and temporary workers. The strike has been marred by violence and vandalism, including arson, to several temporary letter-sorting facilities set up by Canada Post. About 100,000 members of the Public Service Alliance, which represents a broad cross-section of civil servants, will be in a legal strike position this weekend. The union

has already started some industrial action: customs officers at US crossings threatened to work to rule yesterday. The public servants' union has rejected a government proposal to freeze wages this year, with increases of 3 per cent in 1992 and 1993. While wages are also an issue in the postal dispute, the main point of disagreement stems from Canada Post's strategy of "contracting out" various services to non-union, private suppliers. CUPW has demanded about 2,500 part-time jobs be converted to full-time positions.

Leader of Argentine army mutiny sentenced

AN Argentine civilian court yesterday jailed for an indefinite term the leader of a one-day army mutiny which claimed 13 lives last December, writes John Barham in Buenos Aires. Fourteen other officers were jailed, along with former Col Mohamed Ali Seineldin, receiving sentences ranging from two to 25 years. All were discharged from the army. The officers had been convicted by a military tribunal in January but by law civilian courts are required to confirm military rulings.

The sentences imposed by the civilian federal appeals court were generally more lenient than those handed down by the military tribunal, which had condemned six other officers to life imprisonment. The judges also rejected the prosecution's claim that the mutineers had tried to mount a coup d'état. President Carlos Menem crushed Argentina's fourth army rebellion within 14 hours largely because of the armed forces' overwhelmingly loyal leadership.

Noriega prepares to do battle with US legal Goliath

THE trial of General Manuel Noriega on drug-trafficking charges, which opens in the Miami Federal District Court tomorrow with jury selection, may bring revelations about the roles played by the Central Intelligence Agency, the Drug Enforcement Agency, and the Bank of Credit and Commerce International in Latin American arms and narcotic trade. Then again, it may not. But whether the trial provides a glimpse into the operational side of US intelligence and its alleged links to international crime, or becomes merely a drug-trafficking trial, the prosecution of Gen Noriega, who was at the time of his arrest the *de facto* head of the Panamanian government, marks an extension of the scope the US government claims for its right to enforce domestic law. When Gen Noriega was indicted in Miami in 1988, the government attempted to bring him to trial on charges that he had assisted the Colombian cocaine cartels in shipping drugs to the US. President George Bush launched the invasion of Panama in December 1989, saying the apprehension of Gen Noriega was a key goal. On January 4 1990 the general walked out of the Vatican embassy and was flown to Miami, where he has since been confined. After the invasion, US officials in Panama took journalists on tours of the general's home and pointed out artifacts which they said indicated the general was an admirer of Hitler and a devotee of witchcraft. The defence questioned whether the general could get a fair trial after such publicity. Questions were also raised by domestic critics about whether the government had the right to bring Gen Noriega to trial in the US. But the general's lawyers were unable to convince Federal District Judge William Hovever, in whose court the general's case is being heard, that their client had been improperly arrested, that his rights had been violated, or that the US had used excessive force in his capture. Those were just the first of a spate of issues the judge has had to decide in the 18 months since Gen Noriega's arrival in Florida. The judge had to broker a complicated international legal arrangement to persuade European bankers to release funds from Gen Noriega's frozen accounts so he could pay his lawyers. He also had to rule on complex issues involving allegations of government impropriety in listening in to the prisoner's telephone conversations with his lawyers. But the main pre-trial battle between the government and defence, carried on largely behind closed doors, has been a struggle over the scope of evi-

Henry Hamman on the former military strongman's trial, which begins in Miami tomorrow

dence the defence will be allowed to present. The defence team, led by Mr Frank Rubino, has sought to force the release of large numbers of classified documents which they allege will show that whatever Gen Noriega did for or with narcotics traffickers was part of an overall relationship he had with US intelligence agencies. The defence argues that Gen Noriega was so valuable to the agencies that they paid him more than \$20m (\$11.5m). The government has acknowledged Gen Noriega was on the payrolls of intelligence agencies, but they say he received less than the defence alleges. The defence has also filed documents alleging that Gen Noriega allowed illegal weapons shipments through Panama at the behest of seven directors of the CIA, including now-President George Bush. The defence has said it expects to subpoena Mr Bush to testify during the trial. Judge Hovever has issued sealed orders for the release to the defence of classified documents which the defence says will show the depth of the relationship between the general and US intelligence agencies. Government attorneys deny the judge's rulings will put the relationship between the general and the intelligence community on trial. The general's case may also find a place in the BCCI scandal. The general maintained accounts with the bank, and the government of Panama charged in a lawsuit filed in Miami last month that BCCI assisted Gen Noriega in laundering funds earned from trafficking payoffs. Earlier this month the Washington Post newspaper quoted US investigators as saying Colombian drug cartels had moved nearly \$1bn in drug profits through BCCI, mainly through branches in Panama, while the bank enjoyed the protection of Gen Noriega. Documents the government has turned over to the defence team, including Gen Noriega's BCCI account records, indicate that part of the prosecution strategy will be to focus on sources of his wealth. The trial will resemble a David and Goliath struggle. The defence team is made up of Mr Rubino, Mr Jon May and a small staff of investigators and aides. The government is believed to have deployed at least 20 lawyers. In addition to members of the Miami Attorney-General's office, special prosecuting staff has been sent from Washington.

Chile launches scheme to modernise infrastructure

PRESIDENT Patricio Aylwin of Chile has launched a public works programme to ensure his country's export-driven growth is not stifled by lack of ports, airports, roads and railways, writes Leslie Crawford in Santiago. In a nationwide broadcast at the weekend, Mr Aylwin said his government would spend \$2,500m (\$1,300m) - about 9 per cent of GDP - over the next three years to modernise Chile's infrastructure. This was in such a state of neglect, he said, that it was obstructing economic development. Earthquake damage to docks in Valparaiso and San Antonio six years ago had not yet been repaired and there were not enough roads to carry Chile's forestry exports to ports. The president announced that Santiago, home to 5m people, would get its first sewage treatment plant, and construction of a new underground line would begin in 1993. A new passenger terminal will reduce congestion at Santiago's tiny airport. Chile's railways, which still use rolling stock built in the 1920s, will be privatised. Almost 1,000km of roads will be tarred.

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UK NEWS

Secret £4m fee prompts call for bid disclosure

By Norma Cohen, Investments Correspondent

A SECRET agreement which required the winning company in a bitterly contested takeover bid last year to pay its target's merchant bank nearly £4m has prompted the Bank of England to call for full disclosure of fees paid to merger and acquisition advisers.

The Bank's decision to ask the Takeover Panel and accounting regulatory bodies to consider requiring full disclosure followed the acrimonious £1.1bn bid for Globe Investment Trust by CIN Management, British Coal's pension fund.

It has now emerged that Globe struck a deal with its main defence adviser, Baring Brothers, which required CIN to pay nearly £4m to Baring once the deal was completed.

Terms of the deal were said to have required higher payment to Baring if it was successful in inducing CIN to raise its initial offer - which it did.

CIN, which learned of the deal only after it won the bid, later argued in private hear-

ings before the Takeover Panel that Globe's payments to Baring were contingent liabilities which should have been disclosed during the bid.

One Bank of England official said yesterday: "Vast sums of money are being spent on shareholders' behalf. Why shouldn't they know this information?"

The Bank has also supported recent efforts by institutional investors to force companies to disclose more information and to play a greater role in their management.

CIN declined publicly to discuss any payments made to Globe's advisers.

But Mr Barry Southcott, CIN's managing director, said he favoured disclosure of fees in takeover battles because "it might make companies think twice about what they agree to. It would also make shareholders aware of how their money is spent".

In addition to the Takeover Panel, the Bank has approached the Financial

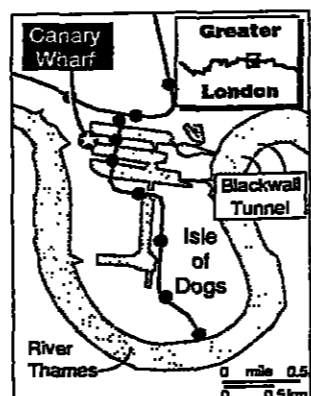
Reporting Council and the Accounting Standards Board. Discussions with the accounting bodies are expected to continue for some time before any decision is reached.

The Panel, however, is said to have told the Bank that it does not believe the matter is one which should be addressed in the Takeover Code.

For one thing, the Panel argues that the structure of investment bank advisory fees are often dependent on the outcome of the takeover and are not easily quantifiable until the deal is either completed or abandoned.

The Takeover Code, which regulates the conduct of mergers and acquisitions, is silent at present on fee disclosure unless securities are to be issued in connection with a cash payment to shareholders.

The accounting bodies, however, could take the view that such fees are contingent liabilities and that disclosure of how fees are to be computed must be disclosed during a bid.



Heat and dust raises tempers in Docklands

By Andrew Jack

THE LONDON Docklands Development Corporation and Olympia and York, property developers, yesterday rejected claims that they were liable for disruption to the lives of local residents during construction of the Canary Wharf complex in east London over the past five years.

Mr Eric Sorensen, chief executive of LDDC, said that some disruption was necessary to bring new jobs and businesses to the area. Olympia and York, the developer of the 800ft Canary Wharf tower, said it was confident it had no legal liability and would contest any proceedings.

The reaction follows a letter from solicitors representing more than 25 Docklands residents last Friday that they intend to file for damages against LDDC and Olympia and York for noise and dust from building works and interference with television reception over the past five years.

Mr Martyn Day, a partner in the firm Leigh Day and Company, wrote to the two organisations on behalf of Splash, South Poplar and Limehouse Action for Safe Housing, an umbrella group representing local tenants' associations. He filed legal aid applications for them on the same day.

He estimated that the 10,000 local residents had fair grounds for filing claims of nuisance and asserted health problems against the two bodies, which might be worth an average of £10,000 for each claimant.

TUC IN GLASGOW

By David Goodhart

BRITISH trade unions yesterday signalled their readiness to embrace a more codified, continental, system of industrial relations incorporating tight legal restrictions and positive rights for employees.

In a debate at the TUC congress in Glasgow Mr John Edmonds, leader of the GMB, said that Britain's "eccentric labour relations set-up" had failed and the future now lay with the continental system based on "roundtable discussion in works councils and enterprise committees".

The unions' first serious attempt to set the industrial relations agenda for a decade came on the same day as a

barrage of attacks on Labour party-union links from Mr Michael Howard, the employment secretary, who said that "the unions' footprint is on every aspect of Labour policy". He also criticised the congress's decision to boycott Employment Action, designed to give training and work experience to 30,000 unemployed people.

In the debate on the unions and Europe Mr Edmonds said that the continental model was coming whether people liked it or not and "we are about to be overtaken by a revolution which will sweep away almost every feature of the British industrial relations system."

Anyone who doubts the trend should buy a ticket to Brussels, they are not thinking in British terms.

The British unions have long supported EC social legislation but it is only recently that traditional hostility to the more legally restrictive continental model has faded.

The unions believe that as they now suffer continental-style legal restrictions, with no prospect of repealing them, they should at least enjoy continental rights. Mr Tony Blair, the opposition employment spokesman, said yesterday that a Labour government would act swiftly to introduce a package of positive rights for

employees.

The motion passed called only for an examination of how features of the "Franco-German" approach to industrial relations, such as works councils and greater rights to information, might be adapted to British circumstances.

There are still some reservations about adapting other countries' systems to Britain but many senior union officials now believe that Britain could have a version of the works council system within five years.

Even left-wing unions believe that a works council system is inevitable.

Tradition is ready to be buried

David Goodhart on how German industrial practices may be adopted

THE growing body of opinion within Britain's union elite wants to bury 100 years of Anglo-Saxon trade union tradition in the name of continental European consensus.

The "voluntarist" model which kept the law out of worker-management relations, and the conflict in, have proved of little benefit to workers of the past decade and has, in any case, been partly undermined by the Conservative employment laws.

Those legal restrictions are here to stay, even under a Labour government, so why should British workers not also receive the benefits of the more codified continental system?

British trade unions have been casting envious glances at Continental, and especially German, industrial relations for many years. But now, for the first time since the abortive industrial democracy debate of the 1970s, British unions are actually examining whether, for example, elections to work councils can be adapted to Britain's multi-union plants.

Supporters of the German model, led by Mr John Edmonds of the GMB, still have many people to convince even within their own ranks. Hostility to that model has been based not only on the perceived restrictions, such as

legally binding agreements or severe restraints on strike action, but also on the fact that positive rights and institutions, such as works councils, are provided for employees and not unions.

Left wing unions such as the Transport and General Workers Union, and even some lead-

broadly they fear granting rights at work which make trade union organisation superfluous; few union officials want to put themselves out of a job.

The election of a Labour government would increase the likelihood of a package of positive rights for employees, although first priority might be given to a new law on union recognition.

There was scarcely a mention of European style participation and information rights in Labour's long policy review but Mr Tony Blair, employment spokesman, is a supporter and says legislation on employee rights will be a Labour government priority.

Mr Blair, like Mr Edmonds, sees improved consultation rights running parallel with a reform of Britain's anarchic and decentralised wage bargaining system.

One of the strengths of the German system is that bargaining, and the conflicts it creates, take place outside individual plants at regional or national level. Works councils in plants have considerable powers of veto and can decide how to apply locally the bargaining results reached nationally, but they cannot call strikes.

Supporters of the German model argue that some version of the system will be imposed in any case by the EC. The two

proposals for worker participation, one associated with the EC company statute, the other with the social action programme, are currently being held up by British objections but will eventually be established in some form.

Also, although transnational bargaining remains in its infancy, even in the EC, an increasing number of British union officials are involved in European works councils, many of them encouraged by multi-national companies.

But it is the irreversible decline of traditional trade unionism and the weakness of organised labour in growth sectors which may, paradoxically, be the best argument for more employee power. Introducing the German model a decade ago would have led to its abuse by still adversarial unions and would have blocked necessary restructuring.

The more modest unions of today are now ready for "social partnership" because they know that otherwise they will virtually disappear. Employees will not be so keen.

As Mr Edmonds points out, the consensus system in Germany is fully supported by employers in order to avoid competing over the price of labour. "But unfortunately in Britain reducing the price of labour is the only thing they do compete on," he says.

LONDON STOCK EXCHANGE

Governing board restructured

By Richard Waters

THE long-expected overhaul of the London Stock Exchange's governing board was unveiled yesterday, as 14 proposed new directors for the market were named.

The new directors, bringing senior figures from industry and commerce onto the exchange's governing body for the first time, is part of the attempt by Mr Andrew Hugh Smith, chairman, and Mr Peter Rawlinson, chief executive, to transform the organisation from a club into a more effective commercial enterprise.

All 14 of the proposed directors, along with 11 representatives from the exchange's now-defunct governing council, will face election to the market's new board at an extraordinary general meeting in October.

Three chairmen of public companies have accepted invitations to stand as directors: Lord Alexander of Weedon, chairman of National Westminster Bank; Mr Anthony Tennant, chairman of Guinness;



Lord Alexander

and Mr Ian MacPherson, chairman of Low & Bonar.

They are joined by two fund managers, Mr Donald Brydon, chairman of BZW Asset Management, and Mr John Webster, managing director of Sun Life Asset Management, who is a current council member.

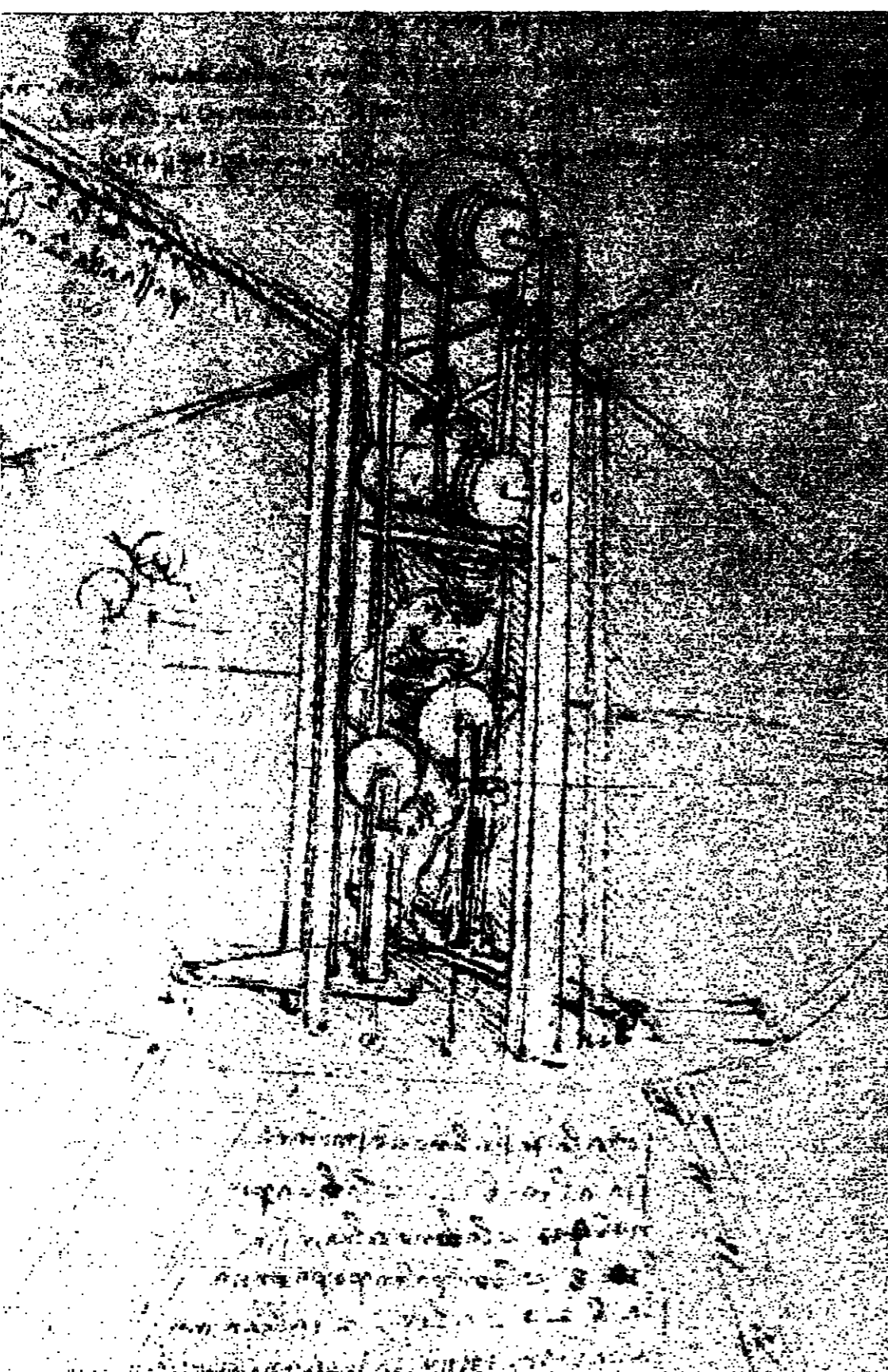
The list of new names also contains some of the most powerful figures in the London securities markets. From UK-based houses, those up for election include: Mr John Kemp-Welch, senior partner of Cazenove; Sir Michael Richardson, chairman of Smith New Court; and Mr Peter Wilmut-Sitwell, chairman of Warburg Securities. Foreign houses are represented by Mr Rudolf Mueller, chairman and chief executive of UBS Phillips & Drew, and Mr Koichi Kane, the new chairman of Nomura International.

The proposed new directors will replace 19 council members who stood down. Most were less senior in their companies and put a considerable amount of time into the exchange, including attending monthly council meetings and sitting on exchange committees. New board members, who will be paid £12,500 a year, will attend board meetings once every six weeks, and new audit and remuneration committees will be drawn from them.



Bill Jordan

ing TUC officials, still have reservations about establishing channels which might compete with trade union ones and strongly oppose the management-dominated Franco-Japanese company councils. More



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TECHNOLOGY



In the third article of a series looking at public spending on research and development throughout the world, Stefan Wagstyl examines why Japan's state-funded sector lags so far behind its commercial counterpart

Researchers at Tokyo university are crowded into crumbling buildings surrounded by unkempt grounds littered with piles of rubbish. There is so little room that some scientists conduct their experiments in the corridors. It is hard to believe that this is Japan's most prestigious seat of learning — that a nation which values technology so highly can show so little respect for the scientific research which makes technological advance possible. Japan's total research and development spending is the highest in the world as a proportion of national output (2.9 per cent of gross national product). But the poverty of state-funded Tokyo university is a startling example of how little the government contributes to the total. The public R&D budget amounts to just 0.5 per cent of GNP, compared with about 1 per cent for other industrialised countries.

Moreover, Japanese scientists argue that their government's contribution to the advance of science is even smaller than the figures suggest. They say money is wasted because it is divided between too many ministries and too many research centres, including more than 400 universities. Given Japan's economic success, it is tempting to conclude that the level of government-funded R&D is irrelevant to the development of technological advanced industries. But that argument ignores the extent to which Japan has borrowed wholesale from the scientific research of other countries, much of it done in state-funded universities. Transistors, semiconductors, and lasers — virtually all the products on which the success of the world-beating Japanese electronics industry is based — come from discoveries made in western laboratories.

Also, very little of Japan's R&D budget goes into defence — in sharp contrast to the US and the UK. But Japan benefits from western defence technology — both in the products it buys and in the products used by US forces stationed in Japan.

The Japanese themselves recognise that since their nation is now a world-class economic power they must in future share the cost of advancing the frontiers of science. To achieve this, Japan will have to put more resources into basic science as well as continuing to invest in applied scientific research.

The question is how? Will the public contribution to R&D be increased or will companies have to shoulder most of the burden themselves?

If the recent past is any guide, companies are likely to expand basic research more quickly than the government. In the past decade, total research spending has doubled; in the year to March 1990,

spending amounted to ¥14,000bn (\$61bn). But total research spending has risen so fast that the proportion of basic research has fallen from about 30 per cent to less than 13 per cent.

This decline has gone hand in hand with the steady eclipse of government R&D spending, which has fallen as a share of the national total from about 30 per cent in 1980 to less than 20 per cent.

Leading companies pride themselves in the investments made in pure research — some 200 corporate fundaments in research laboratories have opened in the past 10 years. Among them is Hitachi's advanced research laboratory, a gleaming white building set in green hills north of Tokyo, and home to Akira Tonomura, world-renowned for work with electron microscopes.

"We have to make our contribution to science," says Tonomura, citing Bell Laboratories of the US as an example of a corporate research centre with a record of excellence which most universities would envy.

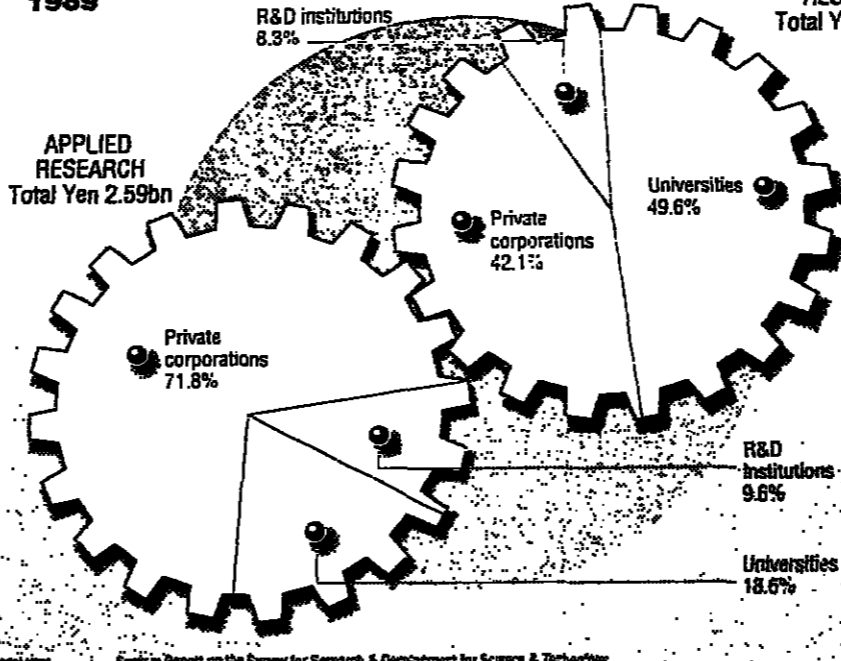
But other scientists doubt whether Japan can rely on commercial laboratories alone to advance into fundamental research. Junichi Nishizawa, president of Tohoku university in northern Japan and widely known as the father of the Japanese semiconductor industry, says fundamental research has to be done in universities or in non-profit institutions.

"For a Japanese company doing something which would not contribute to profits would be to betray the company," says Nishizawa. "The purpose of all these corporate laboratories is to attract good graduates into the company. They are allowed to work in the laboratories for a while then are sent to factories."

Nishizawa says Tonomura, an acknowledged potential Nobel prize winner, is an exception. Other scientists in commercial laboratories agree these pale in comparison with the problems in the public sector. They believe the public bud-

Public paucity in the land of plenty

Japanese R&D expenditure 1989



Source: Research on the Survey for Research & Development for Science & Technology

BASIC RESEARCH Total Yen 1.45bn

get is badly under-funded — a result of the fact that in the immediate post-war years Japan could not afford the luxury of scientific research. The Ministry of Finance's insistence on balanced national budgets makes it difficult to expand the R&D budget without cutting other spending.

Within these constraints, the government has managed to secure funds for large-scale projects with a strong economic purpose — such as the country's nuclear power programme. It has even found money for expensive funda-

mental research schemes, including a ¥110bn (\$480m) synchrotron, a 1.5km-long machine which will be the biggest in the world when it is finished in 1993, and which will be used in the production of semiconductors.

Scientists say much money is wasted by dividing funds among too many recipients. The Ministry of Education gets the largest share, 45 per cent, followed by 25 per cent for the Science and Technology Ministry and 10 per cent for the Ministry of International Trade and Industry.

The Ministry of Education cannot target projects because it is obliged to distribute funds among some 400 universities. To make matters worse, professors rule their departments like fiefdoms so it is difficult for young scientists to secure adequate research funds.

The result, with some exceptions, is atrophy. Susumu Tonogawa, winner of the 1987 Nobel prize for medicine for work done in the US, once said he could never have won his award if he had stayed in Japan.

To be fair, government officials are trying to deal with the problem by developing new national institutes, in order to skirt around traditional university pecking orders, such as Tokyo University's Institute for Advanced Technology set up in 1988.

But young researchers find it hard to join such an institute before they obtain a doctorate — since doctorates can only be awarded at a university. Also, the independent institutes face the same difficulties securing money as other public research bodies.

One solution is to appeal to industry for funds — as happened with the recent establishment of the International Institute for Research into High-Temperature Superconductivity, staffed by scientists from the public and private

sectors but supported mostly by corporate money. The most ambitious scheme is the Science and Technology Agency's programme for Exploratory Research for Advanced Technologies (Erato) which has sponsored 16 projects since 1987.

Erato cuts across traditional lines, picking out individual scientists and allocating funds for about five years to remove financial pressures. The researchers include scientists in public and in private organisations, including both Tonomura and Nishizawa. The emphasis is on laboratory work rather than theoretical research which requires the biggest funds.

Nishizawa supports the Erato programme. But in general he says there is too little evaluation of the relative merits of projects. "There is no proper assessment. Everybody is levelled down by the lack of money. First we should find people skilled at evaluating scientific projects, then we should double the budget."

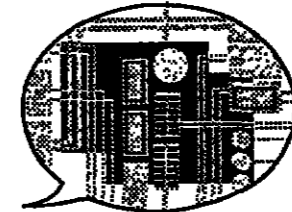
Scientists argue that the government's contribution to R&D is even smaller than the figures suggest

But Nishizawa doubts whether his prescriptions will ever be adopted since they require the complete reform of the educational establishment. Too many people would have too much to lose. It is likely that while the quality of Japan's publicly-funded research programme will improve at the margins due to projects like Erato, there is little prospect of the transformation of universities into genuine centres of scientific excellence. The scientists at Tokyo university may have to work in the corridors for a long time to come.

The series will continue next Tuesday with an article on research and development in the UK.

Full, frank and open

By Alan Cane



TECHNICALLY SPEAKING

If any doubts remain about the power of the "open systems movement", today's announcements from International Business Machines, the world's largest computer maker, should dispel them.

Open systems are computers which obey common industry standards so that machines from different makers can be connected together and use software from different manufacturers.

Such systems offer lower costs to users but narrower margins to manufacturers. So many makers prefer to stay with proprietary designs — systems which are not compatible with those of other makers and so lock customers into buying equipment from just one company.

IBM is launching a small version of its medium-sized AS/400 family of computers. Bundled in with the announcement is a pair of "statements of direction" which suggest that the last bastions of proprietary design are at last collapsing.

Statements of direction in IBM-speak indicate commitments to developments on which customers can rely for future planning. IBM's statements commit it to AS/400 machines which comply with

the Posix operating system and run Cics (Customer Information Control System) on AS/400 computers.

This means that AS/400 joins IBM's mainframe and personal computer families in at least the appearance of "openness" — compatibility with other makers' equipment. Posix is a set of rules approved by the Institute of Electrical and Electronic Engineers which ensures that software written to Posix rules will run on a Posix computer. With the acceptance of Posix the AS/400 family, hitherto proprietary, puts a foot in the open camp.

Today's announcements also mean that the AS/400 range looks like being IBM's main computer range for the future. Cics is a transaction processing monitor, so far available

only on mainframes. Its availability on AS/400 suggests a broadening role for the mid-range family in IBM's strategy.

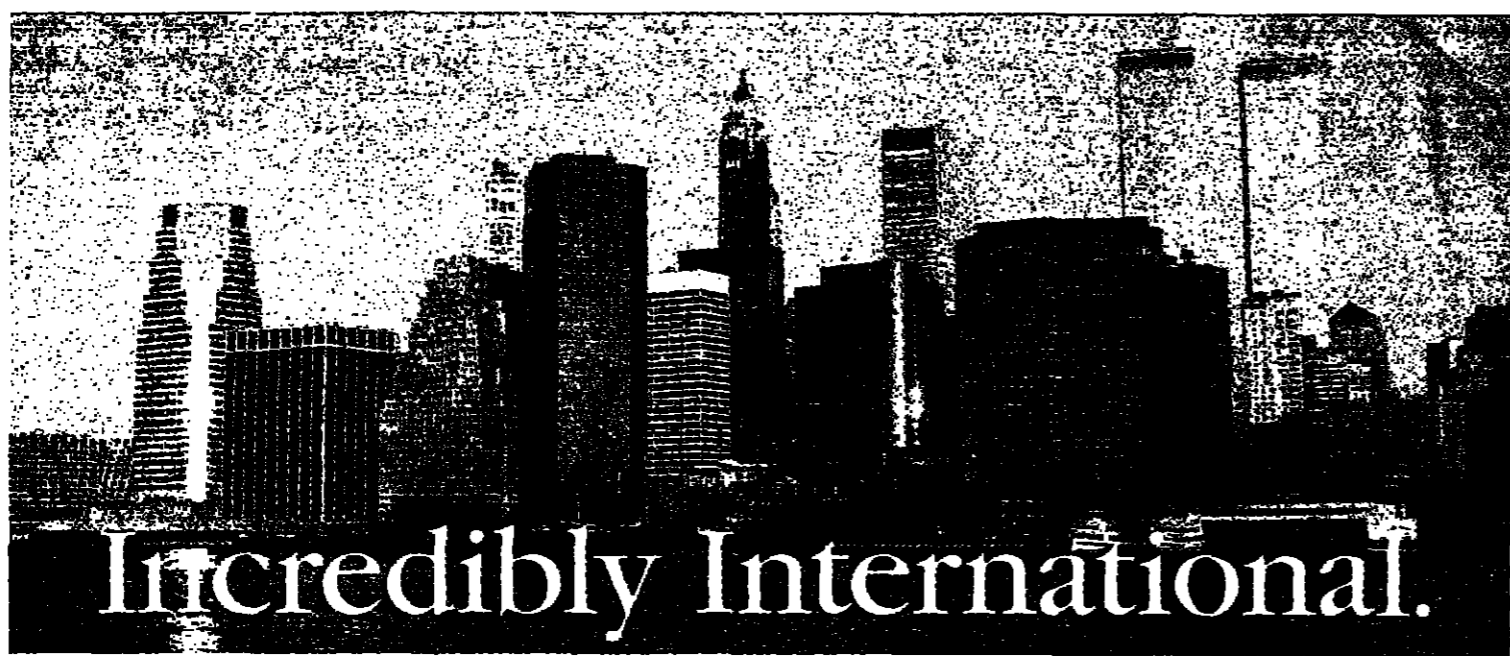
In past years, IBM has been plagued by a plethora of different product families each with its own operating system. Digital Equipment profited in the 1980s from this; its Vax range used the same VMS operating system for all machines.

Success in the mid-range is critical. Some 30 per cent of IBM's income is derived from mid-range sales while revenues from PCs and mainframes are stagnant or declining.

With the introduction of the low end AS/400, the range stretches from a system costing £7,142 and with capacity for four users to one with the power of a small mainframe. The aim is to increase the power of the dual processor machine at the top of the range by adding more processors.

Computer enthusiasts will remember that the AS/400 grew out of the System/38 which in turn was derived from the principles developed in IBM's Future Series, which was aborted in the 1970s to the fury of IBM's top technologists.

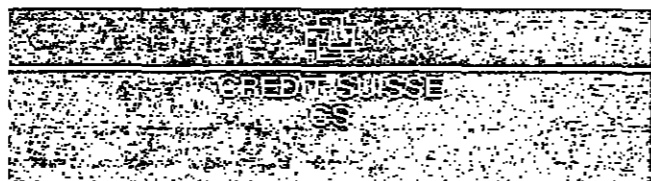
In the new style AS/400 family with added openness, it looks increasingly if Future Series has come home to roost.



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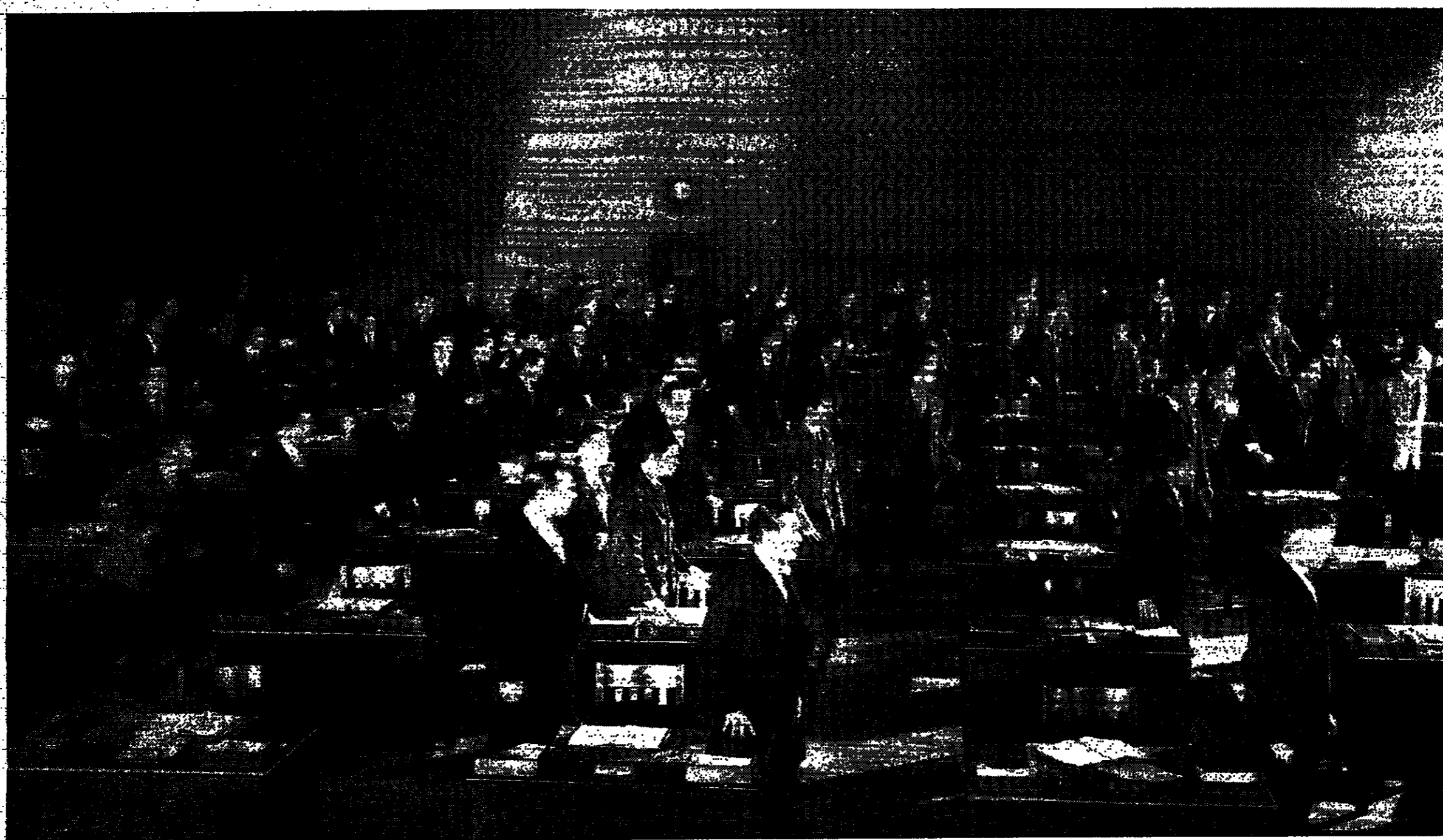
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